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TO: Larry Wexler DATE: October 9, 1992

FROM: Michael Mahan

SUBJECT: **FVB/Pricing And Basic Launch**

I have given some thought to the R.J. Reynolds pricing action and particularly the impact of our actions on behalf of Basic in the 4th quarter on the stability of low-end pricing in this new environment. Some thoughts:

- The rapid expansion of Basic could fuel a continuation of the low-end price war in the short term thereby reducing the likelihood of further pricing actions on Monarch/Forsythe before the end of the year.

- In the event we do no more than match the RJR pricing action across all FVB products, we have not materially affected our short term problems. First, Monarch's pricing relative to our products remains unchanged and we should assume continued Monarch's growth. Second, absent the distribution drive on behalf of Basic, Wholesalers with PM supplied Private Labels will inevitably compete with Monarch shifting the balance (and I would argue control) of the FVB portfolio to Wholesale Private Labels.

Accordingly, I am making the following recommendations:

A. We use this pricing action to differentiate W/PL and Basic Pricing establishing a "Branded" tier i.e. Basic and Monarch with a price advantage versus Wholesale Private Labels. I recommend that we increase list prices by $2.00 and $2.50 on Basic and W/PL's respectively.

B. In a pricing action later this year, we again differentiate pricing with a $.50 and $1.00 increase in Basic and W/PL -- over and above the FET.

C. We defer the expansion of Basic until the first quarter of '93 when new packaging is available and simultaneously reduce W/PL allowances to .50 O/I. Basic's VE/Retail Merchandising allowance should be capped at $.50/carton and traditional sell-in tools should be utilized to achieve distribution.

Should we opt not to pursue the course outline above, I have two thoughts:

A. We should consider a $2.50 increase on FVB in total -- given RJR's recent experience on Doral, I believe the probability is high that they will match.

B. The Basic distribution drive should proceed as planned to shift the balance within FVB away from W/PL's.

I am available to discuss.

cc: R. Mikulay

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